S. H. KRESS & COMPANY

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Kress Store
El Paso, Texas

Annual Report - 1945

THE KRESS STORE AT EL PASO, TEXAS

is an interesting example of the effort made by the Company to serve, grow with and become an integral part of the communities in which its stores are located.

The Company originally established a store in El Paso in 1907. The original store was twice enlarged and modernized. In 1937 the present store was constructed along modified Spanish lines to harmonize with the architecture of El Paso and the Southwest.

S. H. KRESS & COMPANY

Buying-Executive Offices
114 Fifth Avenue, New York 11, N. Y.

OFFICERS

S. H. Kress	*Chairman of the Board*
R. H. Kress	*Vice-Chairman of the Board*
W. L. Baker	*President*
O. N. Birkland	*Vice-President*
H. S. Davis	*Vice-President*
A. G. Eastman	*Vice-President*
W. H. Lollar	*Vice-President*
E. F. Sibbert	*Vice-President*
O. A. Taylor	*Vice-President*
H. F. Cunningham	*Secretary*
C. M. Funk	*Treasurer*
A. J. Oehler	*Controller*
W. M. Weaver	*Assistant Treasurer*
W. F. Dempsey	*Assistant Secretary*
P. W. Denzin	*Assistant Secretary*
J. S. Smith	*Assistant Secretary*

DIRECTORS

S. H. Kress	W. L. Baker	O. N. Birkland
R. H. Kress	O. A. Taylor	H. S. Davis
H. S. Bowers	J. M. Hancock	W. H. Lollar
M. A. Hodges		H. A. Bargeon

Transfer Agent: Lawyers Trust Company, New York, N. Y.
Registrar: Chemical Bank & Trust Company, New York, N. Y.

S. H. KRESS & COMPANY

January 25, 1946

To Employes and Stockholders:

The Annual Report of our Company for 1945, including Comparative Statement of Profit and Loss and Surplus and Balance Sheet certified by Messrs. Price, Waterhouse & Co., public accountants, is submitted herewith.

Sales for the year amounted to $126,038,945, which was 1.5% less than in 1944. The decrease in sales was due, in part, to the fact that, for the greater part of the year, 243 stores were in operation compared with 245 in 1944, and in part to the difficulties experienced throughout the year in obtaining merchandise of outstanding value to sell within our price range.

Net profit for the year, after providing for Federal income and excess profits taxes, amounted to $5,012,280, and was equivalent to $2.13 per share of common stock outstanding. For 1944, net profit amounted to $5,734,632 and was equal to $2.25 per share.

Reference to the Statement of Profit and Loss and Surplus will show a non-recurring charge to profits of $432,103 and a non-recurring credit of $250,000. These amounts represent the cost of past service benefits of a supplemental retirement pension plan, explained in more detail in a subsequent paragraph, and the restoration to profits of a reserve for post-war adjustments established in 1943, respectively. The resulting net charge to profits was $182,103, or slightly less than 8¢ per share of common stock outstanding.

Dividends of $1.60 per share were paid this year to 7,300 holders of common stock, of whom 1,046 were employes of our Company or former employes serving in the armed forces of the country.

A total of $14,263,573 was charged against the year's operations for Federal, state and municipal taxes, representing 11.3¢ out of each dollar of sales as compared with 13.4¢ in 1944. In addition, our Company collected excise and sales taxes amounting to $3,765,269 for Federal, state and municipal taxing authorities.

Salaries and wages paid to officers and employes of the Company during the year amounted to $19,860,047, or 15.8¢ of each dollar of

sales, compared with 14.9¢ for last year. This includes $211,000 for length of service and special merit payments to store employes other than managers. Salaries of $474,650, equal to four-tenths of one cent per dollar of sales, were paid to twenty officers and directors.

Our Company also paid $776,007 as its share of the cost of the employes' regular retirement pension, supplemental retirement pension, and group life insurance plans. This amount includes $432,103, representing the non-recurring cost of past service benefits under the supplemental retirement pension plan established in 1945 to provide for 50 older employes who were in the employ of our Company July 1, 1941, but who were not then eligible and could not later become eligible to participate in the regular retirement pension plan established in 1941. It is estimated that the Company's liability for future years' costs, under the supplemental plan, will not exceed a total of $50,000.

On December 31, 1945, our Company operated 244 stores in the United States and the Territory of Hawaii. Our store at Paris, Texas, which was closed by fire during 1944, was reopened in November 1945. It is expected that our store at Beaumont, Texas, which was also closed because of fire in 1944, will be reopened the early part of 1946. Plans and specifications have been prepared for the construction of a number of new stores and also for the rehabilitation and modernization of many of our older stores. This program will require the expenditure of substantial sums over a period of years, but it cannot be put into full effect until the prevailing shortages of material and labor are relieved.

Cash and U. S. Government securities amounted to $27,310,602 on December 31, 1945 and to $25,702,643 on December 31, 1944. These amounts do not include U. S. Treasury Tax Savings Notes deducted on the Balance Sheet from the Company's liability for Federal income and excess profits taxes. With the removal of restrictions, the amount of cash and securities on hand in excess of normal requirements will be profitably invested in merchandise and in new and improved store properties.

Inventories of merchandise at December 31, 1945, amounted to $15,400,615 as compared with $13,552,877 at the end of 1944. It is expected that, as conditions return to normal, our investment in merchandise will increase. The management, however, will continue to exercise the same close supervision and control of inventories in the future as it has in the past.

Of the 1,646 of our employes who entered military service, we regret to announce that 26 gave their lives in the service of their country. We pay special tribute to these men for the sacrifice that they have made.

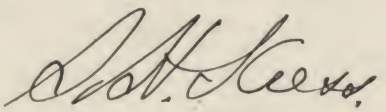
We are informed that approximately 326 of our former employes have been discharged from military service, and to date 266 have been re-employed or have applied for re-employment by the Company. We realize our obligation to these employes and we are assisting them in every way possible to readjust themselves to civilian life.

In 1946 our Company will have completed fifty years of service to the public. The growth of the Company since its inception in 1896 has been the direct result of the emphasis placed on providing outstanding merchandise values and service to the public. We are keenly aware that future success will depend upon the continuation of this policy and the ability to improve upon what has been accomplished in the past.

Plans are now under way for suitable observance of our fiftieth anniversary during 1946. These plans will include merchandise offerings of outstanding values to commemorate the half-century of service in the communities in which our stores are located.

We wish to express our appreciation for the splendid cooperation we have received from our employes, without which the results achieved could not have been accomplished. The management realizes that the future success of the Company will depend to a great extent upon the fullest cooperation of the management, the employes and the stockholders of the Company.

By order of the Board of Directors,



Chairman

S. H. KRESS & COMPANY

Statement of Profit and Loss and Surplus

	Year ending December 31, 1945	1944
GROSS SALES	$126,038,945	$127,955,060
Deduct:		
Cost of merchandise sold and operating expenses (including amounts charged as rental of owned properties and leasehold improvements)	$108,692,781	$107,889,730
Provision for depreciation and amortization	2,011,208	2,093,781
Provision for employes' retirement pension plan	311,967	233,656
Provision for non-recurring cost of past service benefits under supplemental pension plan	432,103	—
	$111,448,059	$110,217,167
	$ 14,590,886	$ 17,737,893
Add:		
Amounts charged as rental of owned properties and leasehold improvements (included in expenses above)	$ 1,487,173	$ 1,488,901
Rentals received from other tenants	331,036	440,173
Restoration of reserve for post-war adjustments	250,000	—
Gain on sales of U. S. Government securities and other assets	5,572	220,416
Interest received (net)	22,613	147,249
	$ 2,096,394	$ 2,296,739
	$ 16,687,280	$ 20,034,632
Deduct:		
Provision for Federal income taxes	$ 2,475,000	$ 2,600,000
Provision for Federal excess profits taxes (net)	9,200,000	11,700,000
Total Federal taxes based on income	$ 11,675,000	$ 14,300,000
NET PROFIT FOR THE YEAR	$ 5,012,280	$ 5,734,632
EARNED SURPLUS AT BEGINNING OF YEAR	20,316,356	19,496,590
	$ 25,328,636	$ 25,231,222
Deduct:		
Dividends paid:		
On common stock ($1.60 per share)	$ 3,762,678	$ 3,762,678
On special preferred stock (60¢ per share)	—	432,383
	$ 3,762,678	$ 4,195,061
Premium paid on redemption of special preferred stock, less expired scrip canceled	—	719,805
	$ 3,762,678	$ 4,914,866
EARNED SURPLUS AT END OF YEAR	$ 21,565,958	$ 20,316,356

S. H. KRESS & COMPANY

ASSETS

	December 31, 1945	1944
CURRENT ASSETS:		
Cash	$ 16,367,994	$ 15,482,679
U. S. Government securities, at amortized cost, including tax refund bonds (market value at Dec. 31, 1945—$11,014,000)	10,942,608	10,219,964
Sundry debtors	42,400	526,184
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	15,400,615	13,552,877
Total current assets	$ 42,753,617	$ 39,781,704
OTHER ASSETS:		
Loans and advances to landlords, deposit in escrow and miscellaneous notes receivable	$ 443,537	$ 420,031
Post-war refund of Federal excess profits tax (estimated)	—	3,190,000
Prepaid insurance premiums, rents, etc.	640,465	788,562
Total other assets	$ 1,084,002	$ 4,398,593
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 15,184,150	$ 15,084,998
Less—Reserve for depreciation	11,468,017	10,883,613
	$ 3,716,133	$ 4,201,385
Leasehold improvements, at cost	$ 16,480,943	$ 16,366,686
Less—Reserve for amortization	8,322,442	7,783,241
	$ 8,158,501	$ 8,583,445
Land and buildings owned in fee, at cost in cash and capital stock	$ 39,170,652	$ 39,098,762
Less—Reserve for depreciation	9,161,272	8,400,609
	$ 30,009,380	$ 30,698,153
Goodwill, leaseholds, etc.	$ 1	$ 1
Total capital assets	$ 41,884,015	$ 43,482,984
	$ 85,721,634	$ 87,663,281

Balance Sheet

LIABILITIES

	December 31, 1945	1944
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 1,831,175	$ 1,510,359
Accounts payable—merchandise in transit	1,023,767	862,236
Accrued salaries, expenses, taxes, etc., including taxes withheld	3,986,845	3,468,547
Provision for Federal income and excess profits taxes (*less* U. S. Treasury tax notes; 1945, $3,372,000; 1944, $4,100,000)	8,921,153	12,863,047
Total current liabilities	$ 15,762,940	$ 18,704,189
RESERVE FOR POST-WAR ADJUSTMENTS	$ —	$ 250,000
CAPITAL STOCK AND EARNED SURPLUS:		
Capital stock:		
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each Outstanding—None	—	—
Common stock without par value— Authorized—2,678,787 shares Issued—2,357,574 shares	$ 48,511,253	$ 48,511,253
(Common stock reserved for sale to employes—68,434 shares)		
Earned surplus	$ 21,565,958	$ 20,316,356
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	$ 21,447,441	$ 20,197,839
Total capital stock and earned surplus	$ 69,958,694	$ 68,709,092
	$ 85,721,634	$ 87,663,281

AUDITORS' REPORT

PRICE, WATERHOUSE & CO.

56 PINE STREET

NEW YORK 5

January 25, 1946.

To the Stockholders of S. H. Kress & Company:

We have made an examination of the balance sheet of S. H. Kress & Company as of December 31, 1945 and of the related statement of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of S. H. Kress & Company at December 31, 1945 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.